

PRESS RELEASE

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Arizona Insurance Director Warns that Federal Legislation Would Hurt Consumers by Prohibiting the State from Regulating Insurance Activity by Banks

Arizona Insurance Director Charles R. Cohen warned today that legislation moving through Congress would prevent enforcement of numerous state laws designed to protect insurance consumers.

Referring to HR10, the Financial Services Act of 1999, Cohen said its impact would be similar to the way that "federal ERISA laws crippled the state's ability to protect many health insurance consumers."

Cohen continued, "As it now stands, HR10 would eliminate major consumer protections under Arizona insurance laws. Similar to the 'black hole' created by federal ERISA laws, where more than half of all health care consumers don't fall under the umbrella of state insurance regulation, HR10 would leave insurance consumers of all types nowhere to turn for help or intervention."

The bill permits banks to affiliate with insurance companies, but effectively prohibits states from regulating most insurance activity by banks or by insurers affiliated with banks.

"Under this pending legislation, thousands of consumers who purchase insurance products, including homeowners, auto, disability and annuities, will have no real protection if a problem arises with their coverage," Cohen said. "If HR10 passes, either another federal bureaucracy will be created to handle the thousands of consumer phone calls that state insurance departments receive daily, or consumers will simply be left adrift."

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Arizona law protects insurance consumers in a variety of ways and requires insurance companies to respond to consumers in a reasonable amount of time and to pay claims in a timely manner.

Here are examples of the types of complaints that were settled in the consumer's favor within the past year, with assistance from the Arizona Department of Insurance:

- A man claimed in 1998, that an agent misrepresented terms of an annuity contract and demanded a refund of all his money (\$154,338). The insurer refused, but after the Insurance Department intervened, the company agreed to refund the total amount, plus interest.
- A claimant was getting nowhere with an insurance company last fall, trying to recover \$5,800 for fire damage to her motor home. With the Insurance Department's assistance, the woman received a check from the insurance company for the full amount.
- Earlier this year, an insurance company initially denied a claim for \$5,508 after a pool filter caused water damage to a home. The insurance company paid the claim after being contacted by the Insurance Department.

Last year, the Arizona Department of Insurance Consumer Services and Investigations Division received nearly 100,000 telephone inquiries from consumers. In addition, investigators processed 4,606 written complaints, and met with more than 1,000 consumers at the Department of Insurance offices in Phoenix and Tucson.

"With the assistance of the Insurance Department, Arizona consumers received settlements of \$5.1 million in 1998," Cohen said.

In addition, as a result of market conduct examinations of insurers, the Department issued 22 consent orders last year ordering restitution plus interest to consumers totaling nearly \$350,000. Also, civil penalties were assessed totaling nearly \$280,000, Cohen said.

The Consumers Services phone numbers at the state Insurance Department are: (1-800 325-2548), (602 912-8444) and (520 628-6370).

HR10, which passed the U.S. House Committee on Banking and Financial Services on March 11, would allow insurance sales activities to be conducted directly by banks or through bank subsidiaries, with no oversight by state insurance departments.

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Cohen pointed out that HR10 prohibits states from doing anything that might “prevent or restrict” banks from affiliating with insurance companies. “The problem with that standard is that all regulation restricts business activity to some degree,” Cohen said.

Cohen said he fully supports consolidating financial services industries to the extent it benefits consumers by providing greater choice, convenience and competition.

“What I am concerned about, however, is that this consolidation not be accomplished in a way that compromises state regulatory authority over the insurance industry and impairs our ability to protect consumers of complicated financial products,” Cohen said.

The National Association of Insurance Commissioners estimates that state insurance departments across the country receive more than 3.5 million consumer inquiries a year, and more than 350,000 consumer complaints.